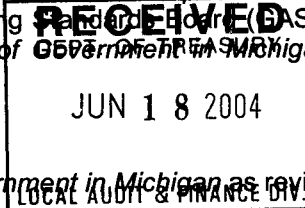


## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Vicksburg District Library	County Kalamazoo
Audit Date 02/29/04	Opinion Date 04/22/04	Date Accountant Report Submitted to State: 06/20/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

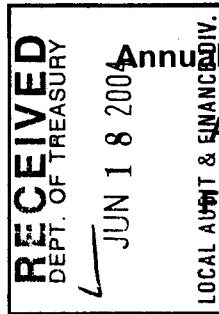
- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 710 E Milham	City Kalamazoo	State MI	ZIP 49002
Accountant Signature <i>Carol Patriodge</i>			

VICKSBURG DISTRICT LIBRARY



Annual Financial Statements  
And  
Auditors' Report  
February 29, 2004

**Vicksburg District Library**  
**Year Ended February 29, 2004**

President .....Reed Kendall

Vice President .....Cathy Brockington

Treasurer .....Louise Russell

Secretary ..... John J Burns, III

Trustee .....Beverly Haas

Trustee ..... Sarah Holmes-Hackard

Trustee .....Cheryl Lee

Trustee.....Ron Markan

Library Director ..... Carolyn Sutter

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## Independent Auditors' Report

Members of the Board  
Vicksburg District Library  
Vicksburg, Michigan

We have audited the financial statements of the Vicksburg District Library for the year ended February 29, 2004, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Vicksburg District Library at February 29, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Required Supplementary Information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
April 22, 2004

**Vicksburg District Library**  
**Combined Balance Sheet - Governmental Fund Type and Account Group**  
**February 29, 2004**

Assets		
	Governmental Fund Type	Account Group
	General	General Fixed Assets
Assets		
Cash	\$ 242,972	\$ -
Receivables		
Taxes	151,475	-
Fixed assets	-	526,440
Total assets	\$ 394,447	\$ 526,440
Liabilities and Fund Equity		
Liabilities		
Payroll liabilities	\$ 9,436	\$ -
Deferred revenue	245,061	-
Total liabilities	254,497	-
Fund equity		
Investment in general fixed assets	-	526,440
Fund balance		
Designated memorial funds	10,023	-
Undesignated	129,927	-
Total fund equity	139,950	526,440
Total liabilities and fund equity	\$ 394,447	\$ 526,440

See Accompanying Notes to the Financial Statements

**Vicksburg District Library**  
**Statement of Revenues and Expenditures - Budget and Actual**  
**For the Year Ended February 29, 2004**

	2004 Budget	2004 Actual	Variance - Favorable (Unfavorable)
<b>Revenues</b>			
Property taxes	\$ 238,706	\$ 240,065	\$ 1,359
State grants	9,422	9,422	-
Local unit contributions	952	-	(952)
Charges for services	7,000	7,489	489
Fines and forfeitures	44,618	45,906	1,288
Interest and rentals	3,000	3,160	160
Other			
Contributions	14,650	10,177	(4,473)
Other	2,486	3,184	698
Total revenues	<u>320,834</u>	<u>319,403</u>	<u>(1,431)</u>
<b>Expenditures</b>			
Recreation and cultural			
Salaries	126,009	122,982	3,027
Employee benefits	10,365	9,932	433
Payroll taxes	11,800	9,749	2,051
Operating supplies	12,500	11,069	1,431
Audio/video	12,260	10,644	1,616
Books	15,340	13,910	1,430
Periodicals	3,500	2,758	742
Children's programs	3,000	2,427	573
Professional services	11,500	8,364	3,136
Postage	2,550	2,149	401
Telephone	2,200	1,840	360
Utilities	8,950	7,596	1,354
Repairs and maintenance	4,500	3,800	700
Membership dues	5,234	5,220	14
Insurance	4,590	4,589	1
Workshops/professional development	2,000	876	1,124
Contribution to other units	38,869	39,976	(1,107)
Book sale	3,000	2,751	249
Summer reading project	2,500	2,283	217
Miscellaneous	7,550	4,996	2,554
Total recreation and cultural	<u>288,217</u>	<u>267,911</u>	<u>20,306</u>
Capital outlay	<u>32,617</u>	<u>19,052</u>	<u>13,565</u>
Total expenditures	<u>320,834</u>	<u>286,963</u>	<u>33,871</u>
Excess of revenues over expenditures	-	32,440	32,440
Fund Balance, March 1, 2003	<u>107,510</u>	<u>107,510</u>	<u>-</u>
Fund Balance, February 29, 2004	<u>\$ 107,510</u>	<u>\$ 139,950</u>	<u>\$ 32,440</u>

See Accompanying Notes to the Financial Statements

**Vicksburg District Library**  
**Statement of Changes in Fund Balance**  
**For the Year Ended February 29, 2004**

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	<u>Designated</u>	<u>Unreserved</u>	<u>Total</u>
Balance			
March 1, 2003	\$ 8,616	\$ 98,894	\$ 107,510
Excess of revenue over expenditures	-	32,440	32,440
Transfers	<u>1,407</u>	<u>(1,407)</u>	<u>-</u>
Balance			
February 29, 2004	\$ <u>10,023</u>	\$ <u>129,927</u>	\$ <u>139,950</u>

See Accompanying Notes to the Financial Statements



**Vicksburg District Library**  
**Notes to Financial Statements**  
**February 29, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Vicksburg District Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

- A. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements represent the Library. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Library has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Library's financial statements. Also, the Library is not a component unit of any other entity.
- B. The modified accrual basis of accounting is utilized in accounting for its funds. Under this method, revenues are recorded when they become measurable and available to be used to pay current liabilities. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year end. Expenditures are generally recognized when the liability is incurred.
- C. The Library historically invests surplus funds in certificates of deposit and deposit accounts with banks, which are members of FDIC.
- D. It is the Library's policy to accumulate earned, but unused, sick pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. Vacation leave is accrued as the benefits are earned by the employees, as the leave is attributable to past service and it is probable that the Library will compensate the employees for the benefits through paid time off. Employees must use earned vacation time within 12 months from the date that vacation time is credited to their account.
- E. Deferred revenue consists of taxes collected for future periods.

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

The Library follows these procedures in establishing the budgetary data reflected in these financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Acts of 1978) as prescribed by the State of Michigan.

**Vicksburg District Library**  
**Notes to Financial Statements**  
**February 29, 2004**

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**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (continued)**

- A. Prior to the fiscal year, the library director submits to the Library Board a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them on an activity basis.
- B. Prior to the fiscal year, the budget is legally enacted for the year on a line item basis, through approval by the Library Board.
- C. Formal budgetary integration is employed as a management control device during the year.
- D. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

**NOTE 3 - REVENUE RECOGNITION**

Property tax revenue is recognized in the year for which taxes have been levied and become available. The Library levy date is December 1 and, accordingly, taxes have been deferred from recognition as revenue until the following fiscal year.

Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on February 14, with a final collection date of February 28, at which time the bill becomes delinquent. Delinquent real property taxes are collected by the County and remitted to the Library by June 30.

**NOTE 4 - CASH**

DEPOSITS - Deposits were reflected in the accounts of the banks (without recognition of checks written but not yet cleared) at \$252,899. Deposits are carried at cost and are maintained at various financial institutions in the name of the Library. Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Library's deposits are in accordance with statutory authority. The Federal Deposit Insurance Corporation insures up to \$100,000 each in both interest bearing accounts, and non-interest bearing accounts, at each institution. At February 29, 2004, the Library had no uninsured cash balances.

**Vicksburg District Library**  
**Notes to Financial Statements**  
**February 29, 2004**

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**NOTE 5 - FIXED ASSETS**

A summary of changes in general fixed assets is as follows:

	Balance March 1, 2003	Additions	Dispositions	Balance February 29, 2004
Building	\$ 320,930	\$ -	\$ -	\$ 320,930
Equipment	<u>194,104</u>	<u>11,406</u>	<u>-</u>	<u>205,510</u>
	\$ <u>515,034</u>	\$ <u>11,406</u>	\$ <u>-</u>	\$ <u>526,440</u>

**NOTE 6 - DESIGNATED MEMORIAL FUNDS**

The Library receives income designated in memory of persons, to be spent on materials designated and to be labeled as given in memory of those persons. These funds are carried over to the next fiscal year unless spent during the current fiscal year. The Library had available \$10,023 designated fund balance at February 29, 2004.

**NOTE 7 - DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The Library is an agent for a multiple-employer, defined benefit pension plan with the Municipal Employees' Retirement Systems (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances, and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ended December 31, 2002. MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.3339(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

MERS issues a publicly-available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement Systems of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

**Vicksburg District Library**  
**Notes to Financial Statements**  
**February 29, 2004**

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**NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)**

**B. Funding Policy**

MERS members are required to contribute an amount varying from 0.0% to 10.0%, depending upon which plan they fall under. The Library is required to contribute at an actuarially-determined rate; the current rate is 6.72% of annual covered payroll depending on the plan. The contribution requirements of plan members and the commission are established, and may be amended by MERS.

**C. Annual Pension Cost**

For the year ended February 29, 2004, the Library contributions were \$2,019, which were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulated sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used included (a) 8.0% long-term net investment rate of return, (b) projected salary increases of 4.5% per year, and (c) 4.5% per year cost-of-living adjustments. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**D. Trend Information**

<u>Fiscal Year Ended February 28,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 2,783	100%	\$ -
2002	576	100%	-
2003	2,019	100%	-

**Required Supplementary Information**

**Vicksburg District Library**  
**Analysis of Funding Progress – Employee Retirement System**  
**February 28, 2004**

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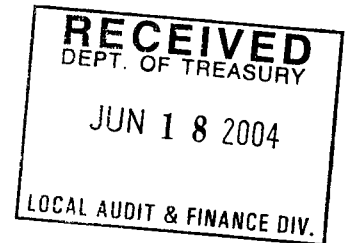
The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated.

Schedule of Funding Progress

Actuarial Valuation Date <u>December 31</u>	Actuarial Value of Assets <u>(a)</u>	Accrued Liability (AAL) Entry Age <u>(b)</u>	Actuarial Underfunded (Overfunded) AAL(UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
1997	\$ 16,111	\$ 19,446	\$ 3,335	83%	\$ 38,624	9%
1998	19,879	25,779	5,900	77%	41,234	14%
1999	24,954	24,050	(903)	104%	20,487	(4)%
2000	31,010	28,930	(2,080)	107%	44,089	(5)%
2001	36,848	42,481	5,633	87%	28,836	20%
2002	34,283	43,800	9,517	78%	27,654	34%



April 22, 2004



Vicksburg District Library  
Library Board Members  
Vicksburg, Michigan

In planning and performing our audit of the financial statements of the Vicksburg District Library for the year ended February 29, 2004, we considered the Library's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. Our comments and recommendations are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

**Current Year Conditions and Recommendations:**

**Include Authorization of Current Wage Rate in Personnel Files**

As part of our testing of internal controls over payroll transactions, we inspect the employee's payroll file to verify rate of pay. In performing our tests we noted that employee files did not have current wage rates. We were able to determine the pay rate through discussions with Library Director, review of board minutes for current year increases, recalculating prior year wage rates with new increases and comparing them to payroll reports. We also came across where certain employees were promoted to a different position at a different rate of pay or an employee had an increase in pay due to meeting probation period requirements. Since these changes were not in the file it was difficult to verify these pay increases. By including the wage rate in the employee's personnel files allows verification for proper rate of pay and to compare to payroll records to ensure there is no unauthorized rate change.

**GASB 34**

The Governmental Accounting Standards Board has approved GASB 34. This is a new financial statement reporting model. Based upon the Library's revenues, your required implementation deadline will be with the February 28, 2005 financial statements. This revised reporting model is required to be implemented for all governmental entities over the next couple years. The purpose of the new model is to make the financial statements of all entities comparable. Nonprofits have already implemented a similar reporting requirement.

A major issue involved with implementing the new guidelines is the fixed assets are to be reported at historical cost and depreciated over their estimated useful lives. Your assets have previously been reported at cost and never depreciated. Another requirement is the preparation of the Management's Discussion and Analysis (MD&A) letter that is to be included with your financial statements.

We suggest that the Library determine who will be responsible for maintaining fixed asset records and develop a timeline for implementation and proper training. The Library also needs to develop policies regarding depreciation methods, useful lives, and capitalization limits.

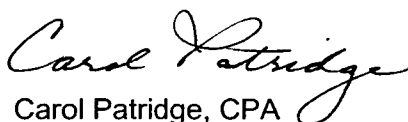
If the Library would like assistance with understanding and implementing this major change in accounting, we are providing this additional service for many of our clients.

### **Establish a Fixed Asset Capitalization Policy**

We noted that the Library does not have a set policy for capitalization of fixed assets. Consequently, the treatment of property additions and repairs and maintenance is not consistent. The Library's records reflect a number of clearly immaterial items that have been capitalized in the past. The items require the same amount of recordkeeping by the Library regardless of the size of the transaction. We recommend that management establish a policy whereby all property purchases over \$1,000 and having a useful life of one year or more are capitalized. Purchases costing less than the established amount or having a useful life of less than one year should be expensed, since the cost of maintaining depreciation records for such items would exceed the benefits. The State of Michigan recommends that individual library books be expensed, in accordance with your capitalization criteria. The Library should document the capitalization policy and communicate it to those who code property invoices to ensure the policy is consistently followed.

Our firm appreciates the opportunity to serve the Vicksburg District Library. We have met with the Library Director and Library bookkeeper regarding the issues and recommendations put forth in this letter. We would be happy to discuss what role Yeo and Yeo can play in assisting the Library with these matters. We would like to thank the Library Bookkeeper and Library Director and the staff for their cooperation and assistance.

Respectfully,

A handwritten signature in cursive script, reading "Carol Patridge".

Carol Patridge, CPA  
Yeo & Yeo, P.C.